

KERN COUNTY

Audit Report

HANDICAPPED AND DISABLED STUDENTS PROGRAM

Chapter 1747, Statutes of 1984,
and Chapter 1274, Statutes of 1985

July 1, 2000, through June 30, 2002



STEVE WESTLY
California State Controller

April 2005



STEVE WESTLY
California State Controller

April 22, 2005

The Honorable Ann K. Barnett
Auditor-Controller-County Clerk
Kern County
1115 Truxtun Avenue, Second Floor
Bakersfield, CA 93301-4639

Dear Ms. Barnett:

The State Controller's Office audited the claims filed by Kern County for costs of the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) for the period of July 1, 2000, through June 30, 2002.

The county claimed \$3,921,001 (\$3,922,001 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$1,869,232 is allowable and \$2,051,769 is unallowable. The unallowable costs occurred primarily because the county claimed ineligible costs and understated revenue offsets. The State will pay allowable costs claimed, totaling \$1,869,232, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at COSM's Web site at www.csm.ca.gov (Guidebook link), and obtain IRC forms by telephone at (916) 323-3562 or by e-mail at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original Signed By:

VINCENT P. BROWN
Chief Operating Officer

VPB:JVB/ams

cc: (see page 2)

cc: Diane Koditek, Director
 Department of Mental Health Services
 Kern County
Ray Hetzel, Accountant
 Department of Mental Health Services
 Kern County
James Tilton, Program Budget Manager
 Corrections and General Government
 Department of Finance
Zoey Todd
 Special Education Program
 Department of Mental Health

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Audit Report

Summary

The State Controller's Office (SCO) audited the claims filed by Kern County for costs of the legislatively mandated Handicapped and Disabled Students Program (Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) for the period of July 1, 2000, through June 30, 2002. The last day of fieldwork was October 15, 2004.

The county claimed \$3,921,001 (\$3,922,001 less a \$1,000 penalty for filing a late claim) for the mandated program. The audit disclosed that \$1,869,232 is allowable and \$2,051,769 is unallowable. The unallowable costs occurred primarily because the county claimed ineligible costs and understated revenue offsets. The State will pay allowable costs claimed, totaling \$1,869,232, contingent upon available appropriations.

Background

Chapter 26 of the *Government Code*, commencing with Section 7570, and *Welfare and Institutions Code* Section 5651 (added and amended by Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) require counties to participate in the mental health assessment for "individuals with exceptional needs," participate on the expanded Individualized Education Program (IEP) team, and provide case management services for "individuals with exceptional needs" who are designated as "seriously emotionally disturbed." These requirements impose a new program or higher level of service on counties.

On April 26, 1990, the Commission on State Mandates (COSM) determined that Chapter 1747, Statutes of 1984, resulted in state-mandated costs that are reimbursable pursuant to *Government Code* Section 17561.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. COSM adopted *Parameters and Guidelines* on August 22, 1991, and it was last amended on August 29, 1996. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies in claiming reimbursable costs.

Parameters and Guidelines states that only 10% of mental health treatment costs are reimbursable. However, on September 30, 2002, Assembly Bill 2781 (Chapter 1167, Statutes of 2002) changed the regulatory criteria by stating that the percentage of treatment costs claimed by counties for fiscal year (FY) 2000-01 and prior fiscal years is not subject to dispute by the SCO. Furthermore, this legislation states that, for claims filed in FY 2001-02 and thereafter, counties are not required to provide any share of those costs or to fund the cost of any part of these services with money received from the Local Revenue Fund established by *Welfare and Institutions Code* Section 17600 et seq. (realignment funds). As a result, allowable mental health treatment costs for Kern County increased by \$1,683,209 during the audit period (\$634,789 for FY 2000-01 and \$1,048,420 for FY 2001-02).

**Objective,
Scope, and
Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Handicapped and Disabled Students Program for the period of July 1, 2000, through June 30, 2002.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, not funded by another source, and not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Section 17558.5. We did not audit the county's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Kern County claimed \$3,921,001 (\$3,922,001 less a \$1,000 penalty for filing a late claim) for costs of the Handicapped and Disabled Students Program. Our audit disclosed that \$1,869,232 is allowable and \$2,051,769 is unallowable.

For FY 2000-01, our audit disclosed that \$704,321 is allowable. The State will pay that amount contingent upon available appropriations.

For FY 2001-02, our audit disclosed that \$1,164,911 is allowable. The State will pay that amount contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft report on February 18, 2005. Ann K. Barnett, the county's Auditor-Controller-County Clerk, responded by letter dated March 17, 2005, disagreeing with Finding 1 and agreeing with the remaining findings. The county's response is included as an attachment to this audit report.

Restricted Use

This report is solely for the information and use of Kern County, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 2000, through June 30, 2002

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference ¹</u>
<u>July 1, 2000, through June 30, 2001</u>				
Assessment and case management costs	\$ —	\$ —	\$ —	
Treatment costs	1,764,465	1,752,118	(12,347)	Findings 1, 2
Administrative costs	—	107,394	107,394	Finding 3
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	—	(515,130)	(515,130)	Finding 4
EPSDT funds	—	(423,257)	(423,257)	Finding 4
State categorical funds	(215,804)	(215,804)	—	
Net treatment costs	1,548,661	705,321	(843,340)	
Total costs	1,548,661	705,321	(843,340)	
Less late penalty	(1,000)	(1,000)	—	
Total reimbursable costs	<u>\$ 1,547,661</u>	704,321	<u>\$ (843,340)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 704,321</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Assessment and case management costs	\$ —	\$ —	\$ —	
Treatment costs	2,589,144	2,388,950	(200,194)	Findings 1, 2
Administrative costs	—	111,214	111,214	Finding 3
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	—	(616,172)	(616,172)	Finding 4
EPSDT funds	—	(503,277)	(503,277)	Finding 4
State categorical funds	(215,804)	(215,804)	—	
Net treatment costs	2,373,340	1,164,911	(1,208,429)	
Total costs	2,373,340	1,164,911	(1,208,429)	
Less late penalty	—	—	—	
Total reimbursable costs	<u>\$ 2,373,340</u>	1,164,911	<u>\$ (1,208,429)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,164,911</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>Summary: July 1, 2000, through June 30, 2002</u>				
Assessment and case management costs	\$ —	\$ —	\$ —	
Treatment costs	4,353,609	4,141,068	(212,541)	Findings 1, 2
Administrative costs	—	218,608	218,608	Finding 3
Offsetting revenues:				
Short-Doyle/Medi-Cal funds (FFP)	—	(1,131,302)	(1,131,302)	Finding 4
EPSDT funds	—	(926,534)	(926,534)	Finding 4
State categorical funds	(431,608)	(431,608)	—	
Net treatment costs	3,922,001	1,870,232	(2,051,769)	
Total costs	3,922,001	1,870,232	(2,051,769)	
Less late penalty	(1,000)	(1,000)	—	
Total reimbursable costs	<u>\$ 3,921,001</u>	1,869,232	<u>\$(2,051,769)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,869,232</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Ineligible treatment costs claimed

The county claimed costs for medication support and crisis intervention that are ineligible.

Parameters and Guidelines for the mandated program specifies that only the following treatment services are reimbursable: individual therapy; collateral therapy and contacts; group therapy; day treatment; and the mental health portion of residential treatment in excess of California Department of Social Services payments for residential placement.

As a result, we have adjusted claimed treatment costs as follows.

	Fiscal Year		
	2000-01	2001-02	Total
Treatment costs:			
Medication support	\$ (111,051)	\$ (127,814)	\$ (238,865)
Crisis intervention	<u>(35,536)</u>	<u>(73,503)</u>	<u>(109,039)</u>
Audit adjustment	<u>\$ (146,587)</u>	<u>\$ (201,317)</u>	<u>\$ (347,904)</u>

Recommendation

We recommend the county ensure that costs claimed are eligible increased costs incurred as a result of the mandate.

County's Response

The county disagreed with the finding, stating that both medication support and crisis intervention are “in the scope of practice of mental health professionals” and they therefore “should be allowable.”

SCO's Comment

The finding and recommendation remain unchanged. As currently amended, *Parameters and Guidelines* limits reimbursement to individual therapy, collateral therapy and contacts, group therapy, day treatment, and the mental health portion of residential treatment in excess of California Department of Social Services payments for residential placement.

Reimbursement for medication support and crisis intervention costs would depend on the Commission on State Mandates adopting proposed amendments to *Parameters and Guidelines*. Based on the dates that the activities were incorporated into proposed amendments, we believe that medication support would be reimbursable beginning with fiscal year (FY) 2001-02 and crisis intervention would be reimbursable beginning with FY 2002-03, if the amendments are adopted.

**FINDING 2—
Units of service
understated**

The county understated the number of units of treatment services provided in FY 2000-01 and FY 2001-02. The units of service (minutes) were understated because (1) the county inadvertently omitted procedure code 682 and 692 services from its claims, and (2) it discovered various other eligible service minutes after it submitted its claims. For FY 2000-01 and FY 2001-02, services were understated by 123,986 minutes and 155 minutes, respectively.

Parameters and Guidelines specifies that the actual increased costs incurred to provide eligible mental health services are reimbursable.

As a result, we have adjusted claimed treatment costs as follows.

	Fiscal Year		Total
	2000-01	2001-02	
Treatment costs	\$ 134,240	\$ 1,123	\$ 135,363

Recommendation

We recommend the county ensure that costs claimed are eligible increased costs incurred as a result of the mandate and are supported by appropriate documentation.

County's Response

The county concurred with the finding.

SCO's Comment

The finding and recommendation remain unchanged.

**FINDING 3—
Administrative costs
not claimed**

The county inadvertently failed to claim administrative costs related to mental health treatment services. We computed allowable administrative costs based on administrative cost data contained in the county's annual cost reports submitted to the California Department of Mental Health.

Parameters and Guidelines specifies that administrative costs incurred in providing eligible mental health treatment services are reimbursable.

As a result, we have adjusted claimed treatment costs for the unclaimed administrative costs as follows.

	Fiscal Year		Total
	2000-01	2001-02	
Treatment costs:			
Administrative costs	\$ 107,394	\$ 111,214	\$ 218,608

Recommendation

We recommend the county ensure that costs claimed are eligible increased costs incurred as a result of the mandate and are supported by appropriate documentation.

County's Response

The county concurred with the finding.

SCO's Comment

The finding and recommendation remain unchanged.

**FINDING 4—
Offsetting revenues
not deducted from
claimed costs**

The county did not report revenues received from the California Department of Mental Health as reimbursement for services provided to Medi-Cal clients. The county failed to report the federal financing participation (FFP) share of Short-Doyle/Medi-Cal costs on its claims, as well as the state matching funds received under the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) Program.

Parameters and Guidelines specifies that any direct payments (categorical funds) received from the State which are specifically allocated to the program, and any other reimbursements received as a result of the mandate, must be deducted from the claims.

As a result, we have adjusted claimed costs as follows.

	Fiscal Year		
	2000-01	2001-02	Total
Treatment costs:			
Offsetting revenues:			
Short-Doyle/Medi-Cal funds (FFP)	\$ (515,130)	\$ (616,172)	\$(1,131,302)
EPSDT funds	(423,257)	(503,277)	(926,534)
Audit adjustment	<u>\$ (938,387)</u>	<u>\$ (1,119,449)</u>	<u>\$(2,057,836)</u>

Recommendation

We recommend the county ensure that all applicable reimbursements received are offset against costs claimed.

County's Response

The county concurred with the finding.

SCO's Comment

The finding and recommendation remain unchanged.

**Attachment—
County's Response to
Draft Audit Report**

ANN K. BARNETT
Auditor-Controller-County Clerk

Glenn S. Spencer
Assistant Auditor-Controller-County Clerk

County Administrative Center
1115 Truxtun Avenue, Second Floor
Bakersfield, CA 93301-4639
FAX 661-868-3560



Auditor-Controller: 661-868-3599
County Clerk: 661-868-3588

Registrar of Voters (Elections):
661-868-3590
800-452-VOTE
TTY Relay 800-735-2929

March 17, 2005

Jim L. Spano, Chief
Compliance Audits Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Subject: Response to Audit Findings - Handicapped and Disabled Students Program for the
Period of 07/01/00 to 06/30/02

Dear Mr. Spano,

The following is our response to the audit findings and recommendations identified in your draft audit report received on March 8th, 2005:

Finding 1-Ineligible Treatment Costs Claimed

The county claimed costs for medication support and crisis intervention that are ineligible.

Recommendation

We recommend that the county ensure costs claimed are eligible increased costs incurred as a result of the mandate.

Response

The county wishes to appeal this finding. As noted in the background on page one of the report the statutes "...require counties to participate in the mental health assessment for 'individuals with exceptional needs,' participate on the expanded Individual Education Program (IEP) team, and provide case management services for 'individuals with exceptional needs' who are designated as 'seriously emotionally disturbed.'"

The severity of the disorder for these students could result in behaviors that require either medication support and/or crisis intervention. Medication support and crisis intervention services are in the scope of practice of mental health professionals. Therefore we believe these services should be allowable.

Finding 2-Units of Service Understated

The county understated the number of units of treatment services provided in fiscal year (FY) 2000-01 and FY 2001-02. The units of service (minutes) were understated because (1) the county inadvertently omitted procedure code 682 and 692 services from its claims, and (2) it discovered

various other eligible service minutes after it submitted its claims. For FY 2000-01 and FY 2001-02, services were understated by 123,986 minutes and 155 minutes, respectively.

Recommendation

We recommend that the county ensure costs claimed are eligible increased costs incurred as a result of the mandate and are supported by appropriate documentation.

Response

The county agrees with this recommendation.

Finding 3-Administrative Costs not Claimed

The county inadvertently failed to claim administrative costs related to mental health treatment services. We computed allowable administrative costs based on administrative cost data contained in the county's annual cost reports submitted to the California Department of Mental Health.

Recommendation

We recommend that the county ensure costs claimed are eligible increased costs incurred as a result of the mandate and are supported by appropriate documentation.

Response

The county agrees with this recommendation.

Finding 4-Offsetting Revenues not Deducted From Claimed Costs

The county did not report revenues received from the California Department of Mental Health as reimbursement for services provided to Medi-Cal clients. The county failed to report the federal financing participation (FFP) share of Short-Doyle/Medi-Cal costs on its claims, as well as the state matching funds received under the Early Periodic Screening, Diagnosis, and Treatment (EPSDT) Program.

Recommendation

We recommend that the county ensure all applicable reimbursements received are offset against costs claimed.

Response

The county agrees with this recommendation.

If you have any additional questions for us, please feel free to contact Glenn S. Spencer, Assistant Auditor-Controller-County Clerk at 661-868-3548.

Sincerely,

A handwritten signature in blue ink that reads "Ann K. Barnett". The signature is fluid and cursive, with the first name "Ann" and last name "Barnett" clearly legible.

Ann K. Barnett
Auditor-Controller-County Clerk

cc: Kern County Mental Health Department

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>